

**REPORT OF THE AUDIT OF THE  
FULTON COUNTY  
SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period  
April 29, 2009 Through April 15, 2010**



**CRIT LUALLEN  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**FULTON COUNTY**  
**SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period**  
**April 29, 2009 Through April 15, 2010**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2009 Taxes for the Fulton County Sheriff for the period April 29, 2009 through April 15, 2010. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$2,638,081 for the districts for 2009 taxes, retaining commissions of \$98,184 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,524,465 to the districts for 2009 taxes. Taxes of \$22,910 are due to the districts from the Sheriff and refunds of \$9,020 are due to the Sheriff from the taxing districts.

**Report Comments:**

- 2009-01 The Fulton County Sheriff Should Prepare A Tax Settlement Annually And Have It Approved By Fiscal Court As Required By KRS 134.192
- 2009-02 The Fulton County Sheriff Should Process Franchise Tax Collections Appropriately And Timely
- 2009-03 The Fulton County Sheriff Should Distribute Tax Collections Monthly As Required By KRS 134.191
- 2009-04 The Fulton County Sheriff Should Deposit Tax Collections Timely
- 2009-05 The Fulton County Sheriff's Office Lacks An Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable David Gallagher, Fulton County Judge/Executive

Honorable Robert Hopper, Fulton County Sheriff

Members of the Fulton County Fiscal Court

Independent Auditor's Report

We have audited the Fulton County Sheriff's Settlement - 2009 Taxes for the period April 29, 2009 through April 15, 2010. This tax settlement is the responsibility of the Fulton County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Fulton County Sheriff's taxes charged, credited, and paid for the period April 29, 2009 through April 15, 2010, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated March 28, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable David Gallagher, Fulton County Judge/Executive  
Honorable Robert Hopper, Fulton County Sheriff  
Members of the Fulton County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2009-01 The Fulton County Sheriff Should Prepare A Tax Settlement Annually And Have It Approved By Fiscal Court As Required By KRS 134.192
- 2009-02 The Fulton County Sheriff Should Process Franchise Tax Collections Appropriately And Timely
- 2009-03 The Fulton County Sheriff Should Distribute Tax Collections Monthly As Required By KRS 134.191
- 2009-04 The Fulton County Sheriff Should Deposit Tax Collections Timely
- 2009-05 The Fulton County Sheriff's Office Lacks An Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

March 28, 2011



FULTON COUNTY  
ROBERT HOPPER, SHERIFF  
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period April 29, 2009 Through April 15, 2010

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 254,109	\$ 424,670	\$ 1,114,084	\$ 233,093
Tangible Personal Property	49,916	79,308	224,416	172,217
Fire Protection	453			
Increases Through Exonerations	133	210	476	122
Franchise Taxes	38,515	57,951	163,319	
Limestone, Sand and Mineral Reserves	636	1,004	2,276	583
Bank Franchises	18,338			
Penalties	1,335	2,110	5,928	1,413
Adjusted to Sheriff's Receipt	3	8	84	(6)
Gross Chargeable to Sheriff	<u>363,438</u>	<u>565,261</u>	<u>1,510,583</u>	<u>407,422</u>
<u>Credits</u>				
Exonerations	1,863	2,950	7,939	1,686
Discounts	4,400	6,750	17,666	5,313
Delinquents:				
Real Estate	10,807	17,654	51,812	9,913
Tangible Personal Property	2,925	4,099	11,490	2,477
Limestone, Sand and Mineral Reserves	636	1,004	2,276	583
Franchise Taxes	7,399	11,040	25,941	
Total Credits	<u>28,030</u>	<u>43,497</u>	<u>117,124</u>	<u>19,972</u>
Taxes Collected	335,408	521,764	1,393,459	387,450
Less: Commissions *	<u>14,255</u>	<u>22,175</u>	<u>45,287</u>	<u>16,467</u>
Taxes Due	321,153	499,589	1,348,172	370,983
Taxes Paid	319,130	496,821	1,337,451	371,063
Refunds (Current and Prior Year)	<u>199</u>	<u>311</u>	<u>847</u>	<u>185</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ 1,824</u>	<u>\$ 2,457</u>	<u>\$ 9,874</u>	<u>\$ (265)</u>

\*, \*\*, and \*\*\* See Next Page.

The accompanying notes are an integral part of this financial statement.

FULTON COUNTY  
 ROBERT HOPPER, SHERIFF  
 SHERIFF'S SETTLEMENT - 2009 TAXES  
 For The Period April 29, 2009 Through April 15, 2010  
 (Continued)

\* Commissions:

4.25% on \$ 1,244,622

3.25% on \$ 1,393,459

\*\* School Districts:

County School \$ (8,698)

Independent School 18,572

Due District or

(Refund Due Sheriff) \$ 9,874

\*\*\* Special Taxing Districts:

Library District \$ 1,038

Health District 498

Extension District 726

Soil Conservation (48)

Mental Health 248

Watershed District #1 (9)

Watershed District #2 4

Due Districts or

(Refunds Due Sheriff) \$ 2,457

FULTON COUNTY  
NOTES TO FINANCIAL STATEMENT

April 15, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Fulton County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

FULTON COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 15, 2010  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Fulton County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2009. Property taxes were billed to finance governmental services for the year ended June 30, 2010. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 17, 2009 through April 15, 2010.

B. Franchise Taxes

The real and tangible franchise tax assessments were levied as of January 1, 2009. Franchise taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was May 1, 2009 through April 15, 2010.

Note 4. Interest Income

The Fulton County Sheriff earned \$813 as interest income on 2009 taxes. The Sheriff did not distribute the appropriate amount to the interest income as required by statute. As of April 15, 2010, the Sheriff owed \$159 in interest to the county school district, \$156 in interest to the independent school district and \$342 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Fulton County Sheriff collected \$8,940 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office. As of April 15, 2010, the Sheriff owed \$647 in 10% add-on fees to his fee account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Gallagher, Fulton County Judge/Executive  
Honorable Robert Hopper, Fulton County Sheriff  
Members of the Fulton County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Fulton County Sheriff's Settlement - 2009 Taxes for the period April 29, 2009 through April 15, 2010, and have issued our report thereon dated March 28, 2011. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fulton County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2009-05 to be a material weakness.



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fulton County Sheriff's Settlement - 2009 Taxes for the period April 29, 2009 through April 15, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2009-01, 2009-02, 2009-03, and 2009-04.

The Fulton County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Fulton County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen  
Auditor of Public Accounts

March 28, 2011



## COMMENTS AND RECOMMENDATIONS



FULTON COUNTY  
ROBERT HOPPER, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period April 29, 2009 Through April 15, 2010

STATE LAWS AND REGULATIONS:

2009-01 The Fulton County Sheriff Should Prepare A Tax Settlement Annually And Have It Approved By Fiscal Court As Required By KRS 134.192

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KRS 134.192(5) states, “[t]he report of the state and local settlement shall be filed in the county clerk’s office and approved by the governing body of the county no later than September 1 of each year.” The Fulton County Sheriff’s 2009 property tax settlement was incomplete and inaccurate. An amended 2009 property tax settlement was prepared but not submitted to the fiscal court for approval. The Fulton County Sheriff did not prepare an annual franchise tax settlement. We recommend that the sheriff comply with KRS 134.192 by preparing a complete and accurate tax settlement and obtaining fiscal court approval on or before September 1<sup>st</sup>.

*Sheriff Robert Hopper’s Response: “Will see that it is done by date from now on.”*

2009-02 The Fulton County Sheriff Should Process Franchise Tax Collections Appropriately And Timely

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The franchise tax collections should follow the same state laws/regulation, and procedures as the property tax collections. Franchise tax collections should be deposited daily, reported and distributed monthly, with any delinquents being transferred to the county clerk and make a final settlement. The Fulton County Sheriff deposited franchise tax collections only once a month, did not report or distribute franchise tax collections for January 2010, did not distribute some franchise tax collections by the 10<sup>th</sup> of the month following collection, did not transfer delinquent franchise tax collections to the county clerk, and did not prepare a final settlement of franchise tax collections. We recommend that the sheriff process franchise tax collections appropriately and timely.

*Sheriff Robert Hopper’s Response: “We will comply.”*

2009-03 The Fulton County Sheriff Should Distribute Tax Collections Monthly As Required By KRS 134.191

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KRS 134.191 requires the sheriff to pay and report all taxes collected due the districts by the 10<sup>th</sup> of each month. The Fulton County Sheriff collected franchise taxes of \$16,419 during the month of January 2010 that were not reported nor disbursed to the taxing districts. Also, the Fulton County Sheriff did not distribute property taxes collected in April 2010 timely. We recommend that the sheriff comply with KRS 134.191 by reporting and distributing all tax collections by the 10<sup>th</sup> day of the month.

*Sheriff Robert Hopper’s Response: “We will try to comply. We are changing bookkeeper.”*

FULTON COUNTY  
ROBERT HOPPER, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period April 29, 2009 Through April 15, 2010  
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2009-04 The Fulton County Sheriff Should Deposit Tax Collections Timely

KRS 68.210 gives the State Local Finance Officer the authority to establish minimum accounting procedures, which includes depositing receipts intact on a daily basis into a federally insured financial institution. The Fulton County Sheriff did not deposit tax collections on a daily basis. We recommend that the sheriff deposit public funds on a timely basis.

*Sheriff Robert Hopper's Response: "This is being taken care of with new bookkeeper."*

INTERNAL CONTROL - MATERIAL WEAKNESS:

2009-05 The Fulton County Sheriff's Office Lacks An Adequate Segregation Of Duties

The Fulton County Sheriff's Office lacks adequate segregation of duties over the accounting and reporting functions of the sheriff's office. The sheriff's bookkeeper is responsible for receiving cash, preparing daily deposits, preparing and signing checks, posting to receipt and disbursement ledgers, preparing monthly bank reconciliation and also comparing the weekly, monthly and quarterly reports to the ledgers. A lack of segregation of incompatible duties or strong oversight increases the risk that errors could occur and not be detected. This condition is a result of a limited budget, which restricts the number of employees the sheriff can hire or delegate duties to.

A proper segregation of duties over the accounting and reporting functions such as receiving cash, recording cash, preparing deposits, writing checks, maintaining ledgers, reconciling bank records to the ledgers and the preparation of the quarterly reports or implementing compensating controls, when necessary because of a limited number of staff, is essential for providing protection from error occurring and not being detected. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

The Fulton County Sheriff should separate the duties involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliation, comparing financial reports to ledgers. If, due to a limited budget, this is not feasible, cross-checking procedures could be implemented and documented by the individual performing the procedure.

*Sheriff Robert Hopper's Response: "We will attempt to have everything doubled checked either by myself or my chief deputy."*

